**Ex gratia scheme: A stitch in time?**

The final verdict from the Reserve Bank of India (RBI) was out on October 26, 2020. It put an end to a spiralling controversy and the subsequent legal battle fought between the State and Gajendra Sharma, the optician from Agra, who challenged the legality of charging interest on deferred EMIs during the moratorium period of March 1 to August 31, 2020. The precursor to this was the affidavit submitted by the Ministry of Finance, who was a party to the original litigation. It came up with a scheme through a notification dated October 23, suitably named “Scheme for grant of ex gratia payment of difference between compound interest and simple interest for six months to borrowers in specified loan accounts (1.3.2020 to 31.8.2020) (EGS).” To put things into perspective, the RBI reprieve, offered on existing loans from banks, NBFCs, HFCs, MFIs and financial institutions came with three major riders - interest payable on the overdue EMIs unpaid during the period of moratorium availed, the interest thus calculated to be added to the unpaid EMIs translating it into a notion of interest on interest and the unpaid EMIs of borrowers to be converted into a loan or repayment tenure to be extended. The main contention to this controversy was the charging of “interest on interest” to a borrower on the unpaid EMIs. While “compounding” of interest is the unquestionable reality of banking and finance, the Supreme Court all along disapproved of this idea. In the midst of the battery of litigations, finally the Ministry of Finance has come up with the EGS - whereby the central government exchequer will take over the differential interest i.e., the difference between the compound interest and the simple interest during the six months period starting on March 1, 2020. The lending institutions will have to pass on the benefits to the borrowers and a back-to-back claim to be registered with the State Bank of India by December 15 2020, for reimbursements. The EGS payment scheme is another Covid 19 related relief incentive from the central government which is expected to cost the exchequer about `7500 crore. The EGS is limited to any borrower falling under the specified category of loan accounts, classified as standard and having an aggregate exposure of not exceeding `2 crore as on March 1, 2020. Non fund-based facilities like bank guarantee will not be eligible for this scheme. The definition of “lending institutions” and the classes/ categories of facilities that would qualify under the EGS are also quite far and wide. Along with the banks (scheduled, co-operative and regional rural banks), all India financial institutions, all categories of RBI registered NBFCs (including micro finance, MFI outfit) and HFCs (either registered with NHB or RBI) qualify as lending institutions. Whereas the Ex gratia scheme: A stitch in time? Saptarshi Roy Bardhan loans falling under any of the categories mentioned below will be considered under EGS: l MSME loans l Education loans l Consumer durables loans l Credit card dues l Automobile loans l Personal loans to professionals l Consumption loans l Housing loans The benefits of EGS are expected to help a sizable number of borrowers who have been through the rough weather of the pandemic - microfinance borrowers being the largest. A back of the envelope calculation pegs the figure (around `300 crore) which will flow in as a relief to the MFI borrowers. Another important point needs enlightenment. Is the ex-gratia benefit received by a borrower taxable? As this amount will be treated as an income, therefore it will be taxed at the normal slab rate applicable to the individual. Since there is no TDS, the tax will have to be paid by the individual and the income mentioned in the tax return next year. The debt book of Indian banks, financial institutions, NBFCs and HFCs will continue to be precarious in the days to come. Had there not been a standstill order from the Apex Court for not marking any loan as NPA, provisions would have shot up. With the economy rolling back to normal ,we have to wait and watch how the day pans out going ahead.

Saptarshi Roy Bardhan

-*Author works for Peerless Financial Services Ltd. Views expressed are personal.*

CREDIT : BUSINESS ECONOMICS MAGAZINE